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SIPDIS
SENSITIVE

STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENTFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER

E.O. 12958: N/A

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BEXP, KIPR, KWMN, PHUM, SENV, ASEC, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
NOVEMBER 24 TO NOVEMBER 28, 2008

REF: NEW DELHI 2995

11. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of November 24 to November 28, 2008,
including the following:

- July-September GDP Growth Surprises at 7.6%
- Budget Session of Parliament Outlook
- GOI Restricts Steel Imports
- GOI Considering Currency Swaps
- FICCI Re-Affirms West Bengal's Investment Prospects Post
Tata
- Despite Slowdown, Design and Engineering Firm Sees Increasing
Outsourcing Opportunities

July-September GDP Growth Surprises at 7.6%

12. (U) The government released July-September (second quarter of
the Indian fiscal year) GDP growth data this week, with modestly
higher than expected 7.6% growth, slightly down from 7.9% in the
April-June quarter. Industrial growth slowed to 6.1% year on year
for the quarter, compared to an annual growth rate of 8.5% last
fiscal year. Construction remained strong, coming in at 9.7% growth
for the quarter, in line with last year's 9.8% annual growth rate.
Services barely lost stride, with hotels and communications up
nearly 11% and financing/insurance rising 9.2%. Growth in
investment was actually higher in the second quarter year on year
than first quarter growth - 13% compared to 8.9%. However, per
reftel, there are signs of a slowdown in investment, while financial
services are sure to be hit in the October-December quarter.

Budget Session of Parliament Outlook

13. (SBU) Ministry of Finance Joint Secretary KP Krishnan on November
26 told DepECouns that the government had finalized the dates for
the special December session of Parliament for December 10-23, but
the agenda for the session was not yet finalized. Until that time,
Krishnan explained, it was not clear whether any bills would be
taken up for consideration and voted on during the session.
Krishnan noted that a bill needed at least 2-3 days for both Houses

to review and to schedule a vote on, even for bills with no opposition, such as the PFRDA pension bill. Krishnan added that, if less than a day was given to consideration of pending legislation, then the December parliamentary session was likely to end earlier with no new legislation passed. He predicted that, under the current political climate, it was unlikely that any legislation would be voted on, whether or not parliament stays in session as planned.

14. (SBU) When asked how the government would handle the annual budget exercise, usually held in February, given that national elections have to be held by May 2009, Krishnan confirmed that there will be no further budget sessions until after national elections. If elections are held early, for example in March, then the new Government could hold a budget session as early as May 2009. Krishnan noted that the November 2008 parliament had already authorized a continuing-resolution type "vote on account" that will fund straight-line expenditures across the government until a summer Parliamentary session can be held. Last month's session of Parliament had included supplementary budget authorizations (called grants), whose amounts were calculated to fund programs through the end of the fiscal year, March 31.

GOI Restricts Steel Imports

15. (U) In a bid to protect local industry, the government of India (GOI) on November 24, 2008 placed restrictions on imports of seamless steel tubes and pipes, wood and wood products. The move will mandate a license from the Directorate General of Foreign Trade (DGFT) under the Ministry of Commerce and Industry before a user

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(car, oil and construction companies) could import these items. While the fresh curbs may provide relief to local steel producers, it will act as an effective non-tariff barrier for user industries. Most of the car manufacturers and construction companies have reportedly condemned the protectionist measure.

16. (U) According to industry estimates, the Indian steel industry has experienced a 30 percent decline in production since the outbreak of the global financial crisis. Fearing tough competition from China, the domestic steel industry has been asking the GOI for protection. In response, the GOI in mid-November put curbs on the import of hot-rolled coils and imposed a customs duty of 5 per cent on specific steel items. China is the main supplier of steel inputs to India. As global steel prices have fallen sharply because of lower demand, Chinese, Ukraine and Thai steel have become much cheaper. Leading local steel producers have also demanded re-imposition of a countervailing duty (14 percent equivalent excise duty that the local industry pays as a manufacturing tax) in addition to the 5 percent basic customs duty on imports of steel bars/structures used in construction.

GOI Considering Currency Swaps

17. (U) According to news reports, the GOI is considering a currency swap line of credit arrangement with the United States Federal Reserve Bank or the European Central Bank to boost the sentiments of India's foreign exchange market and also to give confidence to Indian companies who require dollar funding. The facility will allow India's central bank - the Reserve Bank of India (RBI) - to get several billion in USD/euros by swapping equivalent rupees at a pre-set price. The arrangement is not likely to affect the liquidity in the domestic market and will also be a cheaper source of credit. The swap will also act as a cushion to India's foreign exchange reserves which have declined by \$63 billion during the last six months to \$246 billion as of mid-November, although nearly half of the depletion in reserves is on account of revaluation. The currency swap deal would give dollar access without necessarily putting reserves on the line.

FICCI Re-Affirms West Bengal's Investment Prospects Post Tata

¶8. (U) On November 26, the National Executive Committee of the Federation of Indian Chambers of Commerce and Industries (FICCI) met in Kolkata. While convened 10 times per year, the committee's last such meeting in Kolkata was in September 2007 - before TATA's pullout from Singur. At the session, FICCI leaders and members affirmed West Bengal's economic potential and displayed confidence, albeit tempered, in the current Communist Party of India - Marxist government's willingness and capacity to facilitate investment in the state. FICCI's Chief Guest was Chief Minister Buddhadeb Bhattacharjee, who spoke passionately about his government's efforts to encourage investment and develop infrastructure, while at the same time tacitly acknowledging the state government's mistakes in Singur. The Chief Minister minimized the impact of Tata Motor's withdrawal from Singur on West Bengal's reputation as a potential location for foreign investors. Several FICCI members encouraged the Chief Minister to initiate an international communications campaign to re-establish West Bengal as an investment destination.

Despite Slowdown, Design and Engineering Firm
Sees Increasing Outsourcing Opportunities

¶9. (SBU) As U.S.-based construction companies look to minimize their costs in order to weather the current economic storm, several are turning to companies, such as Pinnacle Infotech Solutions, to outsource architectural and engineering services to ensure project profitability. Based in Durgapur, West Bengal and with an office in Houston, Texas, the company employs 500 engineers and architects to service U.S.-based clientele, who make up 90 percent of the

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company's business. During the Consul General's November 25 visit, Pinnacle's CEO, Mr. Bimal Patwari, spoke about his firm's growth opportunities despite the global downturn, as he continues with his expansion plans for a new \$10 million facility that will employ an additional 1000 employees. The Indian software services association, NASSCOM, has reduced its projected annual growth rate for the Indian IT services industry from 28% to 24% due to the global downturn in financial market activity.

¶10. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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